

Message Text

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FOLLOWING TEL SENT SECSTATE INFO BONN MOSCOW HELSINKI VIENNA
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USNMR SHAPE JIDDA USCINCEUR FROM BRUSSELS 16 MAY REPEATED

QTE BRUSSELS 2712

E. O. 11652 GDS

TAGS: PFOR, EEC, XF

SUBJ: ITALIAN PROPOSAL ON MIDDLE EAST

REF: BRUSSELS 2618

1. SUMMARY: ITALIAN MEMORANDUM PREPARED FOR CONSIDERATION AT MAY
21 EC-9 MIDDLE EAST EXPERTS MEETING (TEXT OF WHICH NOW AVAILABLE TO
OUR SOURCE) PROPOSES EC-9 SUPPORT FOR ECONOMIC DEVELOPMENT OF
EGYPT
IN ORDER TO CONTRIBUTE TO DETENTE IN EGYPT AND MIDDLE EAST AND
POSSIBLY LAY FOUNDATION FOR POLITICAL SETTLEMENT. PLAN HOPEFULLY
WOULD LEAD TO REOPENING OF SUEZ CANAL BUT WOULD NOT FOCUS
PRIMARILY
ON CANAL.

2. ITALIAN GOVERNMENT HAS CIRCULATED CONFIDENTIALLY TO EC-9
MEMORANDUM WHICH OUTLINES ITS PROPOSAL ON MIDDLE EAST (PROTECT
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BELGIAN SOURCE). PROPOSAL DIFFERS IN SOME RESPECTS FROM VERSION IN REFTEL. MEMO ARGUES THAT IN FACE OF ISRAELI MILITARY SUPERIORITY, INTERNAL ECONOMIC PROBLEMS, AND ARAB DISAPPOINTMENT OVER LACK OF WESTERN ACTION TO FIND MIDDLE EAST SETTLEMENT, EGYPT MIGHT RESORT TO DRACONIAN AND IRRATIONAL MEASURES AND RISK CONFRONTATION WITH ISRAEL TO CHANGE SITUATION. UNDER THESE CONDITIONS EXTREMISTS IN EGYPT MAY BE GAINING GROUND.

3. MEMO PROPOSES EUROPEAN SUPPORT FOR " RECONSTRUCTION AND REHABILITATION" OF EGYPT. BURDEN OF PROPOSAL IS THAT ALLEVIATING UNHEALTHY ATMOSPHERE IN EGYPT WOULD CONTRIBUTE TO DETENTE IN MIDDLE EAST AND THUS TO MOVEMENT TOWARD POLITICAL SETTLEMENT AND POSSIBLE TO CREATION OF FOUNDATION FOR NEGOTIATIONS. ECONOMIC PROGRAM WOULD ALLOW EGYPTIAN GOVERNMENT TO DEMONSTRATE THAT ITS SEARCH FOR OUTSIDE ASSISTANCE TO SOLVE MIDDLE EAST IMPASSE IS PAYING OFF, WOULD TURN ATTENTION OF EGYPTIANS FROM ECONOMIC AND POLITICAL STAGNATION TO CONSTRUCTIVE EFFORT, AND WOULD DEMONSTRATE WESTERN INTEREST IN MIDDLE EAST PROBLEMS AND HELP PROTECT WESTERN OIL SUPPLY.

4. PROPOSAL DOES NOT CENTER ON SUEZ CANAL BECAUSE OF EGYPTIAN SENSITIVITY TO SUGGESTIONS THAT CANAL REOPENING FORM PART OF INTERIM MIDDLE EAST SETTLEMENT. SUEZ TOWNS (NOT MENTIONED BY NAME) WOULD BE REHABILITATED, HOWEVER, AND PLAN MIGHT LEAD TO REOPENING THROUGH TACIT AGREEMENT IF RELAXATION OF TENSIONS INDUCED ISRAEL TO PULL BACK FROM CANAL INTO SINAI. CONSTRUCTION OF SECOND CANAL NOT MENTIONED.

5. ACCORDING TO PROPOSAL, LOANS OF \$500 MILLION PER YEAR FOR TEN YEARS WOULD BE GRANTED TO EGYPT BY PRIVATE CONSORTIUM FROM EC-9, JAPAN, AND OIL PRODUCING COUNTRIES OF MIDDLE EAST. EVENTUALLY US AND USSR WOULD BE INCLUDED. GOVERNMENTS WOULD MAKE UP DIFFERENCE BETWEEN LOW INTEREST RATE GRANTED TO EGYPT AND MARKET RATE.

6. IF EC-9 ACCEPTS PROPOSAL ITALIAN GOVERNMENT OFFERS TO SEEK EGYPTIAN REACTION. STRAUSS- HUPE UNQTE
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